Fortress Investment Group LLC
Form 10-Q
October 31, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-33294
Fortress Investment Group LLC
(Exact name of registrant as specified in its charter)

Delaware	20-5837959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

(212) 798-6100
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.
Class A Shares: 239,568,798 outstanding as of October 25, 2013.
Class B Shares: 249,534,372 outstanding as of October 25, 2013.

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PART II. OTHER INFORMATION

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Set forth below is information about certain terms used in this Quarterly Report on Form 10-Q:

"Management Fee Paying Assets Under Management," or "AUM," refers to the management fee paying assets we manage, including, as applicable, capital we have the right to call from our investors pursuant to their capital commitments to various funds. Our AUM equals the sum of:

(i) the capital commitments or invested capital (or net asset value, "NAV," if lower) of our private equity funds and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
(ii) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our "Castles,"
(iii) the NAV of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and
(iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

For each of the above, the amounts exclude assets under management for which we charge either no or nominal fees, generally related to our principal investments in funds as well as investments in funds by our principals, directors and employees.

Our calculation of AUM may differ from the calculations of other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers. Our definition of AUM is not based on any definition of assets under management contained in our operating agreement or in any of our Fortress Fund management agreements. Finally, our calculation of AUM differs from the manner in which our affiliates registered with the United States Securities and Exchange Commission report "Regulatory Assets Under Management" on Form ADV and Form PF in various ways. Significantly, Regulatory Assets Under Management, unlike Management Fee Paying Assets Under Management, is not reduced by liabilities or indebtedness associated with assets under management and it includes assets under management and uncalled capital for which Fortress receives no compensation.

"Fortress," "we," "us," "our," the "company" and the "public company" refer, collectively, to Fortress Investment Group LLC its subsidiaries, including the Fortress Operating Group (as defined below) and all of its subsidiaries.

"Fortress Funds" and "our funds" refers to the private investment funds, alternative asset companies and related managed accounts that we manage. The Fortress Macro Fund is our flagship liquid hedge fund and the Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

"Fortress Operating Group" or "FOG" refers to the limited partnerships and their subsidiaries through which we conduct our business and hold our principal investments. The public company controls the Fortress Operating Group through wholly owned subsidiaries that serve as the general partner of each FOG entity.

Economic interests in each FOG entity are represented by Class A common units and Class B common units. Class A common units are (indirectly) owned by the public company, and Class B common units are owned by the principals (defined below) and, from time to time, one senior employee who owned securities convertible into Class B common units.

The number of outstanding Class A common units equals the number of outstanding Class A shares of the public company. The number of outstanding Class B common units equals the number of outstanding Class B shares of the public company.

"Fortress Operating Group units" or "FOGUs" is the term we use to refer to the aggregate of one limited partner interest (either a Class A common unit or a Class B common unit, as applicable) in each FOG entity. One FOGU together with one Class B share is convertible into one Class A share. A surrendered Class B common unit automatically converts into a Class A common unit.

"principals" or "Principals" refers to Peter Briger, Wesley Edens, Randal Nardone and Michael Novogratz, collectively, as well as Robert Kauffman until his retirement in December 2012. The principals control the public company through their ownership of the public company's Class B shares (together with, from time to time, a senior employee who owned securities convertible into Class B shares). The Class B shares and the Class A shares are each entitled to one vote per share, and the number of Class B shares outstanding represents a majority of the aggregate number of Class B shares and Class A shares outstanding. The Class B shares do not represent an economic interest in the public company and therefore are not entitled to any dividends. The principals own their economic interest in the public company through their direct ownership of FOGUs.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part II, Item 1A, “Risk Factors,” Part I, Item 2, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part I, Item 3, “Quantitative and Qualitative Disclosures About Market Risk” and elsewhere in this Quarterly Report on Form 10-Q may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or th version of those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10 Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the company may be found elsewhere in this Quarterly Report on Form 10 Q and the company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.
The company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$311,114	$104,242
Due from affiliates	165,801	280,557
Investments	1,263,392	1,211,684
Investments in options	100,123	38,077
Deferred tax asset	370,944	402,135
Other assets	146,259	124,798
	$2,357,633	$2,161,493
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	$305,361	$146,911
Due to affiliates	343,495	357,407
Deferred incentive income	287,182	231,846
Debt obligations payable	—	149,453
Other liabilities	99,850	59,226
	1,035,888	944,843
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 239,568,798 and 218,286,342 shares issued and outstanding at September 30, 2013 and December 31, 2012 respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 249,534,372 and 249,534,372 shares issued and outstanding at September 30, 2013 and December 31, 2012 respectively	—	—
Paid-in capital	2,121,595	2,119,102
Retained earnings (accumulated deficit)	(1,431,944)	(1,486,578)
Treasury shares (2,082,684 Class A shares held by subsidiary at December 31, 2012)	—	(3,419)
Accumulated other comprehensive income (loss)	(1,928)	(2,634)
Total Fortress shareholders' equity	687,723	626,471
Principals' and others' interests in equity of consolidated subsidiaries	634,022	590,179
Total equity	1,321,745	1,216,650
	$2,357,633	$2,161,493

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Management fees: affiliates	$121,593	$112,806	$388,957	$336,935
Management fees: non-affiliates	15,361	10,762	45,531	32,534
Incentive income: affiliates	40,934	5,976	103,176	38,994
Incentive income: non-affiliates	1,907	788	4,770	1,564
Expense reimbursements: affiliates	49,301	49,214	149,308	136,615
Expense reimbursements: non-affiliates	1,904	977	4,752	2,864
Other revenues (affiliate portion disclosed in Note 6)	1,019	1,000	2,954	2,723
	232,019	181,523	699,448	552,229
Expenses				
Interest expense	778	3,375	4,856	11,877
Compensation and benefits	146,457	181,421	539,591	537,267
General, administrative and other	33,315	31,004	99,970	93,365
Depreciation and amortization	3,501	4,982	10,094	11,718
	184,051	220,782	654,511	654,227
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	7,503	(2,228)	45,578	29,542
Tax receivable agreement liability adjustment	—	—	(7,739)	(6,935)
Earnings (losses) from equity method investees	60,508	52,034	125,515	110,417
	68,011	49,806	163,354	133,024
Income (Loss) Before Income Taxes	115,979	10,547	208,291	31,026
Income tax benefit (expense)	(14,794)	(3,881)	(42,236)	(34,251)
Net Income (Loss)	$101,185	$6,666	$166,055	$(3,225)
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$58,804	$5,958	$111,421	$20,698
Net Income (Loss) Attributable to Class A Shareholders	$42,381	$708	$54,634	$(23,923)
Dividends declared per Class A share	$0.06	$0.05	$0.18	$0.15
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	$0.17	$—	$0.23	$(0.12)
Net income (loss) per Class A share, diluted	$0.12	$(0.04)	$0.21	$(0.13)
Weighted average number of Class A shares outstanding, basic	239,404,587	220,641,776	234,750,585	212,297,285
Weighted average number of Class A shares outstanding, diluted	502,091,166	520,039,541	499,562,470	517,431,334

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Comprehensive income (loss) (net of tax)				
Net income (loss)	$101,185	$6,666	$166,055	$(3,225)
Foreign currency translation	(46)	168	(1,862)	(884)
Comprehensive income (loss) from equity method investees	(1)	(1,066)	4,135	(1,157)
Total comprehensive income (loss)	$101,138	$5,768	$168,328	$(5,266)
Comprehensive income (loss) attributable to principals' and others' interests	$58,772	$5,331	$112,842	$19,462
Comprehensive income (loss) attributable to Class A shareholders	$42,366	$437	$55,486	$(24,728)

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equit
Equity - December 31, 2012	218,286,342	249,534,372	$2,119,102	$(1,486,578)	$(3,419)	$(2,634)	$626,471	$590,179	$1,216,650
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	—	55,543	55,543
Distributions to principals' and others' interests in equity (net of tax)	—	—	(112)	—	—	—	(112)	(116,647)	(116,759
Dividends declared	—	—	(41,896)	—	—	—	(41,896)	66	(41,830
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(428)	—	—	—	(428)	(685)	(1,113
Conversion of Class B shares to Class A shares	10,333,334	(10,333,334)	10,143	—	—	—	10,143	(10,143)	—
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	12,067	—	—	—	12,067	(30)	12,037
Director restricted share	127,533	—	372	—	—	—	372	398	770

grant									
Capital increase related to equity-based compensation, net	8,738,905	10,333,334	14,075	—	—	—	14,075	15,049	29,124
Dilution impact of Class A share issuance	—	—	12,711	—	(15)	(146)	12,550	(12,550)	—
Reissuance of treasury stock	2,082,684	—	(4,439)	—	3,434	—	(1,005)	—	(1,005
Comprehensive income (loss) (net of tax)									
Net income (loss)	—	—	—	54,634	—	—	54,634	111,421	166,055
Foreign currency translation	—	—	—	—	—	(645)	(645)	(1,217)	(1,862
Comprehensive income (loss) from equity method investees	—	—	—	—	—	1,497	1,497	2,638	4,135
Total comprehensive income (loss)							55,486	112,842	168,328
Equity - September 30, 2013	239,568,798	249,534,372	$2,121,595	$(1,431,944)	$—	$(1,928)	$687,723	$634,022	$1,321,745

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Nine Months Ended September 30, 2013	2012
Cash Flows From Operating Activities		
Net income (loss)	$166,055	$(3,225)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	10,094	11,718
Other amortization and accretion (included in interest expense)	704	1,467
(Earnings) losses from equity method investees	(125,515)	(110,417)
Distributions of earnings from equity method investees	53,576	32,621
(Gains) losses	(45,578)	(29,542)
Deferred incentive income	(50,262)	(36,931)
Deferred tax (benefit) expense	53,048	32,107
Adjustment of estimated forfeited non-cash compensation	43	(1,705)
Options received from affiliates	(36,470)	(21,524)
Tax receivable agreement liability adjustment	7,739	6,935
Equity-based compensation	28,648	162,372
Options in affiliates granted to employees	7,757	3,378
Allowance for doubtful accounts	590	485
Cash flows due to changes in		
Due from affiliates	(88,276)	(66,183)
Other assets	1,950	601
Accrued compensation and benefits	204,718	(4,276)
Due to affiliates	5,737	1,404
Deferred incentive income	105,753	43,382
Other liabilities	32,197	23,061
Net cash provided by (used in) operating activities	332,508	45,728
Cash Flows From Investing Activities		
Contributions to equity method investees	(25,885)	(52,573)
Distributions of capital from equity method investees	257,829	137,015
Proceeds from sale of direct investments	9,951	—
Purchase of equity securities	(19,460)	—
Purchase of fixed assets	(7,777)	(7,367)
Net cash provided by (used in) investing activities	214,658	77,075
Cash Flows From Financing Activities		
Repayments of debt obligations	(149,453)	(80,722)
Payment of deferred financing costs	(2,367)	—
Repurchase of RSUs (Note 8)	—	(7,522)
Dividends and dividend equivalents paid	(43,168)	(32,803)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	391	429
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(145,697)	(81,620)
Net cash provided by (used in) financing activities	(340,294)	(202,238)
Net Increase (Decrease) in Cash and Cash Equivalents	206,872	(79,435)
Cash and Cash Equivalents, Beginning of Period	104,242	333,166

Cash and Cash Equivalents, End of Period	$311,114	$253,731

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2013	2012
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$3,586	$10,198
Cash paid during the period for income taxes	$2,990	$5,623
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	$52,105	$23,598
Investments of incentive receivable amounts into Fortress Funds	$206,455	$74,636
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$3,255	$7,876

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2013
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Fortress Investment Group LLC (the “Registrant,” or, together with its subsidiaries, “Fortress”) is a leading, highly diversified global investment management firm whose predecessor was founded in 1998. Its primary business is to sponsor the formation of, and provide investment management services for, various investment funds and companies, including related managed accounts (collectively, the “Fortress Funds”). Fortress generally makes principal investments in these funds.

Fortress has three primary sources of income from the Fortress Funds: management fees, incentive income, and investment income on its principal investments in the funds. The Fortress Funds fall into the following business segments in which Fortress operates:

1) Private equity:
a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America, Western Europe and Asia; and
b) Publicly traded permanent capital vehicles, which Fortress refers to as “Castles,” that invest in a wide variety of real estate related assets including securities, loans, real estate properties and mortgage servicing rights.

2) Liquid hedge funds that invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

3) Credit funds:
a) Credit hedge funds, which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance, on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and
b) Credit private equity (“PE”) funds which are comprised of a family of “credit opportunities” funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of “real assets” funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

4) Logan Circle Partners, L.P. (“Logan Circle”), which represents Fortress's traditional asset management business providing institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. In April 2013, Logan Circle launched a growth equities investment business focused on investing and managing concentrated portfolios of publicly traded U.S. equities.

5) Principal investments in the above described funds.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2013
(dollars in tables in thousands, except share data)

FINANCIAL STATEMENT GUIDE

Selected Financial Statement Captions	Note Reference	Explanation
Balance Sheet		
Due from Affiliates	6	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments and Investments in Options	3	Primarily the carrying value of Fortress's principal investments in the Fortress Funds.
Deferred Tax Asset	5	Relates to potential future tax benefits.
Due to Affiliates	6	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	2	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.
Debt Obligations Payable	4	The balance outstanding on the credit agreement and promissory note.
Statement of Operations		
Management Fees: Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	2	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non- Affiliates	2	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.

Gains (Losses)	3	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the Castles and GAGFAH).
Tax Receivable Agreement Liability Adjustment	5	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	3	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its principal investments.
Income Tax Benefit (Expense)	5	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2013
(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Principals' and Others' Interests in (Income) Loss of Consolidated Subsidiaries	6	Primarily the Principals' and employees' share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	8	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	8	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	10	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, revenue recognition, leases, financial instruments, hedging, and contingencies. Some of the proposed changes are significant and could have a material impact on Fortress's financial reporting. Fortress has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress's consolidated financial statements for the year ended December 31, 2012 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2013. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2012.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Fortress has two principal sources of income from its agreements with the Fortress Funds: contractual management fees, which are generally based on a percentage of fee paying assets under management, and related incentive income, which is generally based on a percentage of returns, or profits, subject to the achievement of performance criteria. Substantially all of Fortress's net assets, after deducting the portion attributable to principals' and others' interests, are a result of principal investments in, or receivables from, these funds. The terms of agreements between Fortress and the Fortress Funds are generally determined in connection with third party fund investors.

The Fortress Funds are divided into segments and Fortress’s agreements with each are detailed below.

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Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Private Equity				
Private Equity Funds				
Management fees: affil.	$34,281	$29,891	$100,781	$89,148
Management fees: non-affil.	123	112	345	283
Incentive income: affil.	6,433	708	21,742	1,815
Castles				
Management fees: affil.	13,289	13,744	42,040	38,427
Management fees, options: affil.	—	8,298	36,470	21,524
Management fees: non-affil.	643	359	2,959	3,563
Incentive income: affil.	4,178	—	5,378	—
Liquid Hedge Funds				
Management fees: affil.	24,313	14,783	61,373	47,946
Management fees: non-affil.	6,324	3,395	18,008	9,592
Incentive income: affil.	10,886	563	17,350	1,436
Incentive income: non-affil.	1,138	188	3,625	312
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	25,455	24,688	75,284	76,005
Management fees: non-affil.	26	58	151	313
Incentive income: affil.	10,756	466	31,330	1,749
Incentive income: non-affil.	—	—	—	130
Credit PE Funds				
Management fees: affil.	23,633	21,402	71,115	63,885
Management fees: non-affil.	35	36	104	108
Incentive income: affil.	8,681	4,239	27,376	33,994
Incentive income: non-affil.	769	600	1,145	1,122
Logan Circle				
Management fees: affil.	622	—	1,894	—
Management fees: non-affil.	8,210	6,802	23,964	18,675
Total				
Management fees: affil.	$121,593	$112,806	$388,957	$336,935

Management fees: non-affil.	$15,361	$10,762	$45,531	$32,534
Incentive income: affil. (A)	$40,934	$5,976	$103,176	$38,994
Incentive income: non-affil.	$1,907	$788	$4,770	$1,564

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(A) See “Deferred Incentive Income” below. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily private equity funds and credit PE funds, is received when such funds realize returns, or profits, based on the related agreements. However, this incentive income is subject to contingent repayment by Fortress to the funds until certain overall fund performance criteria are met. Accordingly, Fortress does not recognize this incentive income as revenue until the related contingencies are resolved. Until such time, this incentive income is recorded on the balance sheet as deferred incentive income and is included as “distributed-unrecognized” deferred incentive income in the table below. Incentive income from such funds, based on their net asset value, which has not yet been received is not recorded on the balance sheet and is included as “undistributed” deferred incentive income in the table below.

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the nine months ended September 30, 2013 and 2012. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $185.9 million and $108.0 million of additional incentive income from affiliates would have been recognized during the nine months ended September 30, 2013 and 2012, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as “undistributed” deferred incentive income in the table below.

During the nine months ended September 30, 2013 and 2012, Fortress recognized $27.4 million and $34.0 million, respectively, of incentive income distributions from its credit PE funds which represented “tax distributions.” These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

Deferred incentive income from the Fortress Funds was comprised of the following, on an inception-to-date basis. This does not include any amounts related to third party funds, receipts from which are reflected as Other Liabilities until all contingencies are resolved.

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2012	$ 894,278	$ (662,432)	$ 231,846	$527,432
Fortress Funds which matured (no longer subject to clawback)	(2,180)	2,180	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	397,018
	106,709	N/A	106,709	(106,709)

Distribution of private equity incentive income				
Recognition of previously deferred incentive income	N/A	(50,262)	(50,262)	N/A
Changes in foreign exchange rates	(1,111)	—	(1,111)	N/A
Deferred incentive income as of September 30, 2013	$ 997,696	$ (710,514)	$ 287,182	$817,741
Deferred incentive income including Fortress Funds which matured	$ 1,051,352	$ (764,170)		

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At September 30, 2013, the net undistributed incentive income is comprised of $903.5 million of gross undistributed incentive income, net of $85.8 million of intrinsic clawback (see next page). The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on September 30, 2013 at their net asset values.

(D) From inception to September 30, 2013, Fortress has paid $433.6 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which $27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the $903.5 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $370.3 million of compensation expense.

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The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of September 30, 2013:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gro Intri Clav (J)
Private Equity Funds											
NIH (1998)	In Liquidation	$415,574	$(823,588)	$—	$ N/A	$—	$ N/A	$—	$94,513	$—	$—
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	—	N/A	—	344,939	—	—
Fund II (2002)	Feb-13	1,974,298	(3,299,244)	125,849	1,450,795	—	N/A	—	287,985	27,288	2,49
Fund III (2004)	Jan-15	2,762,992	(1,576,429)	2,830,089	1,643,526	[illegible]	[illegible]	—	66,903	66,903	66,9
Fund III Coinvestment (2004)	Jan-15	273,649	(178,272)	118,548	23,171	[illegible]	[illegible]	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(587,014)	4,388,567	1,336,020	[illegible]	[illegible]	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(138,625)	583,800	(40,271)	[illegible]	[illegible]	—	—	—	—
Fund V (2007)	Feb-18	4,103,713	(143,711)	4,387,576	427,574	[illegible]	[illegible]	—	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(155)	652,927	(337,398)	[illegible]	[illegible]	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A
FRID (2005) (GAGFAH)	Apr-15	1,220,229	(570,599)	540,433	(109,197)	[illegible]	[illegible]	—	16,447	16,447	16,4
FRIC (2006) (Brookdale)	May-16	328,754	(17,462)	226,547	(84,745)	[illegible]	[illegible]	—	—	—	—
FICO (2006) (Intrawest)	Jan-17	724,525	(5)	(59,651)	(784,171)	[illegible]	[illegible]	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(63,178)	2,287,924	807,639	[illegible]	[illegible]	—	—	—	—
FECI (2007) (Florida East Coast / Flagler)	Feb-18	982,779	(165)	962,051	(20,563)	[illegible]	[illegible]	—	—	—	—
								$—	$862,263	$110,638	$85

Private Equity Funds in Investment Period

WWTAI (2011)	Jun-24	$208,442	$(15,304)	$209,767	$16,629	$—	N/A	$1,564	$—	$—	$—
MSR Opportunities Fund I A (2012)	Aug-22	313,554	(19,325)	322,868	28,639	—	N/A	2,765	—	—	—
MSR Opportunities Fund I B (2012)	Aug-22	75,946	(4,680)	78,111	6,845	—	N/A	684	—	—	—
MSR Opportunities II A (2013)	Jul-23	28,139	—	27,141	(998)	25	1,023	—	—	—	—
MSR Opportunities II B (2013)	Jul-23	401	—	387	(14)	—	14	—	—	—	—
MSR Opportunities II MA I (2013)	Jul-23	6,461	—	6,232	(229)	6	235	—	—	—	—
								$5,013	$—	$—	$—

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	$267,325	$(65,011)	$303,409	$101,095	$122,540	$21,445	$—	$—	$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(124,635)	200,810	51,165	98,575	47,410	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(252,561)	217,333	126,738	—	N/A	18,166	5,042	—
LDVF Patent Fund (2007)	Nov-27	45,466	(41,354)	41,465	37,353	—	N/A	2,884	461	—
Real Assets Fund (2007)	Jun-17	359,024	(275,723)	193,582	110,281	—	N/A	11,912	5,285	—
Credit Opportunities Fund (2008)	Oct-20	5,493,685	(6,366,576)	1,422,116	2,295,007	—	N/A	189,682	260,973	99,291
Credit Opportunities Fund II (2009)	Jul-22	2,162,162	(1,770,179)	1,240,221	848,238	—	N/A	120,831	45,490	8,460
FCO Managed Account (2010)	Jun-22	549,492	(380,679)	391,695	222,882	—	N/A	34,532	7,784	—
SIP Managed Account (2010)	Sep-20	11,000	(28,768)	8,295	26,063	—	N/A	1,659	3,554	—
Japan Opportunity Fund (2009)	Jun-19	1,073,051	(951,289)	568,551	446,789	—	N/A	41,512	51,526	20,277
								$421,178	$380,527	$128,028
Credit PE Funds in Investment Period										
Credit Opportunities Fund III (2011)	Mar-24	1,446,817	(565,323)	1,177,666	296,172	—	N/A	49,826	8,135	8,135
FCO Managed Accounts (2008-2012)	Oct-21 to Mar-27	2,948,653	(2,141,672)	1,683,258	876,277	—	N/A	104,626	69,067	38,773
Japan Opportunity Fund II (Yen) (2011)	Dec-21	419,069	(125,469)	347,117	53,517	—	N/A	8,761	1,963	—

Japan Opportunity Fund II (Dollar) (2011)	Dec-21	354,099	(85,249)	316,183	47,333	—	N/A	6,322	2,752	—
Net Lease Fund I (2010)	Feb-20	149,595	(80,240)	142,209	72,854	—	N/A	8,034	1,545	1,545
Global Opportunities Fund (2010)	Sep-20	223,672	(69,254)	205,821	51,403	—	N/A	10,030	—	—
Life Settlements Fund (2010)	Dec-22	348,174	(94,254)	237,362	(16,558)	54,324	70,882	—	—	—
Life Settlements Fund MA (2010)	Dec-22	28,654	(7,696)	19,447	(1,511)	4,462	5,973	—	—	—
Real Estate Opportunities Fund (2011)	Sep-24	304,730	(77,022)	262,940	35,232	—	N/A	2,431	629	63
Real Estate Opportunities REOC Fund (2011)	Oct-23	31,260	(8,904)	28,421	6,065	—	N/A	1,207	—	—
								$191,237	$84,091	$48,516

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)		Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Liquid Hedge Funds						
Macro Funds (Q) (T)						
Main fund investments	$1,497,640	$9,154	82.5	%	$24,875	$15,719
Single investor funds	918,685	4,505	28.9	%	5,390	91
Sidepocket investments (R)	17,977	16,278	N/A		304	—
Sidepocket investments - redeemers (S)	173,900	114,105	N/A		2,951	—
Managed accounts	1,147,066	409	96.8	%	22,054	3,725
Asia Macro Funds (T)						
Main fund investments	1,556,613	5,230	66.1	%	21,212	1,375
Managed accounts	191,060	—	100.0	%	3,027	—
Fortress Convex Asia Funds (T)						
Main fund Investments	106,210	3,090	0.0	%	—	—
Fortress Partners Funds (T)						
Main fund investments	55,680	33,877	0.1	%	1	—
Sidepocket investments (R)	132,251	24,848	N/A		2,477	—
Credit Hedge Funds						
Special Opportunities Funds (T)						
Main fund investments	$3,717,456	$—	100.0	%	$103,834	$—
Sidepocket investments (R)	96,081	1,606	N/A		5,016	—
Sidepocket investments - redeemers (S)	233,729	69,289	N/A		4,044	—
Main fund investments (liquidating) (U)	853,839	—	100.0	%	85,290	28,480
Managed accounts	5,311	47,666	0.0	%	—	—
Worden Funds						
Main fund investments	223,026	—	100.0	%	5,677	2,680
Value Recovery Funds (V)						
Managed accounts	22,359	4,195	0.0	%	—	—

(A) Vintage represents the year in which the fund was formed.
(B)

Represents the contractual maturity date including the assumed exercise of all extension options, which in some cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their maturity date are included in the table to the extent they have generated incentive income.

(C) Includes an increase to the NAV surplus related to the U.S. income tax expense of certain investment entities, which is considered a distribution for the purposes of computing incentive income.

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(D) A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (F) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (E) below).

(E) Represents the gain needed to achieve the current relevant performance thresholds, assuming the gain described in (D) above is already achieved.

(F) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below).

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

(H) Represents the amount of incentive income previously received from the fund since inception.

(I) Represents the amount of incentive income previously received from the fund which is still subject to contingencies and is therefore recorded on the consolidated balance sheet as Deferred Incentive Income. This amount will either be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., “clawed back”).

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. “Gross” and “Net” refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of September 30, 2013, Fortress held $41.0 million of such amounts on behalf of employees related to all of the private equity funds.

(K) The Fund I distributed incentive income amount is presented for the total fund, of which Fortress was entitled to approximately 50%.

(L) Represents the portion of a fund’s NAV or trading level that is eligible to earn incentive income.

(M) Represents, for those fund investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income from such investors (their “incentive income threshold” or “high water mark”), the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value.

(N) Represents the percentage which is computed by dividing (i) the aggregate NAV of all investors who are at or above their respective incentive income thresholds, by (ii) the total incentive income eligible NAV of the fund. The amount by which the NAV of each fund investor who is not in this category is below their respective incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote (R) below.

(O)

Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

(P) Represents the amount of incentive income Fortress has earned in the current period which is not subject to clawback.

(Q) The Drawbridge Global Macro SPV (the "SPV"), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at September 30, 2013, as if they became realized, would not materially impact the amounts presented in the table.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at September 30, 2013, the undistributed incentive income from the Macro main fund would decrease by $0.9 million.

(S) Represents investments held in sidepockets for investors with no corresponding investment in the related main fund investments. In the case of the Macro Funds, such investors may have investments in the SPV (see (Q) above).

(T) Includes onshore and offshore funds.

(U) Relates to accounts where investors have provided return of capital notices and are subject to payout as underlying fund investments are realized.

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(V) Excludes the Value Recovery Funds which had a NAV of $426.6 million at September 30, 2013. Fortress began managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any significant incentive income from the fund investments.

During the nine months ended September 30, 2013, Fortress formed a new fixed income fund which had a net asset value of $234.2 million as of September 30, 2013.

Private Equity Funds and Credit PE Funds

During the nine months ended September 30, 2013, Fortress formed new Private Equity funds which had capital commitments as follows as of September 30, 2013:

	Private Equity
Fortress	$15,856
Fortress's affiliates	400
Third party investors	1,083,744
Total capital commitments	$1,100,000

In addition, Fortress raised equity within Newcastle and Eurocastle as described in Note 3.

During the three months ended September 30, 2013, Fortress entered into two senior living property management agreements with Newcastle in connection with additional properties acquired by Newcastle. Fortress receives management fees equal to 6.0% of revenues (as defined in the agreements) for the first two years and 7.0% thereafter. In addition, Fortress is reimbursed for certain expenses, including all of the compensation expense associated with on-site employees.

In April 2013, Eurocastle (Note 3) completed a restructuring process that resulted in the conversion of its outstanding convertible debt. As part of that restructuring, Fortress entered into an amended management agreement with Eurocastle that reduced the AUM used to compute Eurocastle's management fees from €1.5 billion to €0.3 billion as of April 1, 2013, and in doing so also reduced the earnings threshold required for Fortress to earn incentive income from Eurocastle. Following the conversion of its outstanding convertible debt, Eurocastle effected a one for two hundred reverse split of its common stock.

In May 2013, Fund I was substantially liquidated. In connection with this liquidation: (i) Fortress received its share of the incentive income of $4.9 million from Fund I in the form of cash and equity interests in three liquidating entities, (ii) Fortress acquired NIH's equity interests in these entities, related to its share of the Fund I incentive income, for $1.3 million, (iii) Fortress sold substantially all of its interests in two of these entities, one each to Eurocastle and a Fortress credit hedge fund, for $2.2 million and $0.5 million, respectively, (iv) Eurocastle and the Fortress credit hedge fund acquired additional equity interests in these two entities from the former Fund I investors such that they own approximately 81% of these entities, (v) Fortress acquired additional equity interests in the third liquidating entity from the former Fund I investors for $8.0 million such that it owns approximately 81% of this entity, and (vi) Fortress made profit sharing payments of approximately $1.8 million in connection with its realization of incentive income. The sale described in (iii) did not qualify for sale accounting treatment under GAAP. As a result, Fortress has recorded an investment and a liability each in the amount of $2.7 million; this treatment did not and is not expected to have an impact on equity or net income. The acquisition described in (v) resulted in the consolidation of this liquidating entity by Fortress. Furthermore, NIH monetized substantially all of its remaining assets (primarily its interests in Fund I as described above) and was substantially liquidated in June 2013. Fortress received $0.6 million of proceeds from NIH's liquidating distribution. These liquidations did not have an impact on Fortress's management fees.

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Liquid Hedge Funds and Credit Hedge Funds

During the nine months ended September 30, 2013, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of September 30, 2013:

	Liquid
Fortress	$100
Fortress's affiliates	—
Third party investors	584,524
Total NAV (A)	$584,624

(A) Or other fee paying basis, as applicable. Approximately $435.2 million represents a transfer of interest from another liquid hedge fund.

3. INVESTMENTS AND FAIR VALUE

Investments consist primarily of investments in equity method investees and options in these investees. The investees are primarily Fortress Funds.

Investments can be summarized as follows:

	September 30, 2013	December 31, 2012
Equity method investees	$1,183,916	$1,135,329
Equity method investees, held at fair value (A)	79,476	76,355
Total equity method investments	$1,263,392	$1,211,684
Options in equity method investees	$100,123	$38,077

(A) Includes publicly traded private equity portfolio companies, primarily GAGFAH, as well as the Castles (NCT, NRZ and ECT).

Gains (losses) can be summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net realized gains (losses)	$36	$57	$(335)	$548
Net realized gains (losses) from affiliate investments	6,616	(65)	6,499	(106)
Net unrealized gains (losses)	52	(498)	5,654	(798)
Net unrealized gains (losses) from affiliate investments	799	(1,722)	33,760	29,898
Total gains (losses)	$7,503	$(2,228)	$45,578	$29,542

These gains (losses) were generated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Mark to fair value on affiliate investments and options	$7,008	$(1,726)	$39,590	$29,895
Mark to fair value on derivatives	(1,476)	(498)	3,805	(866)
Mark to fair value on equity securities	1,527	—	1,524	—
Other	444	(4)	659	513
Total gains (losses)	$7,503	$(2,228)	$45,578	$29,542

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Investments in Equity Method Investees

Fortress holds investments in certain Fortress Funds which are recorded based on the equity method of accounting. Fortress's maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 6. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

	Fortress's Investment		Fortress's Equity in Net Income (Loss)			
	September 30, 2013	December 31, 2012	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Private equity funds, excluding NIH	$806,875	$720,817	$44,552	$35,939	$79,929	$70,644
NIH	—	1,177	—	50	(554)	159
Publicly traded portfolio companies (A)(B)	64,176	67,313	N/A	N/A	N/A	N/A
Newcastle (B)	5,828	9,002	N/A	N/A	N/A	N/A
New Residential (B)	6,866	—	N/A	N/A	N/A	N/A
Eurocastle (B)	2,606	40	N/A	N/A	N/A	N/A
Total private equity	886,351	798,349	44,552	35,989	79,375	70,803
Liquid hedge funds	166,460	180,664	7,525	7,295	14,138	14,050
Credit hedge funds	57,101	58,507	3,372	3,445	9,037	8,791
Credit PE funds	145,274	166,482	5,311	5,446	23,161	16,532
Other	8,206	7,682	(252)	(141)	(196)	241
	$1,263,392	$1,211,684	$60,508	$52,034	$125,515	$110,417

(A) Represents Fortress's direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH.
(B) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.

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A summary of the changes in Fortress's investments in equity method investees is as follows:

	Nine Months Ended September 30, 2013							
	Private Equity			Liquid	Credit			
	NIH	Other Funds	Publicly Traded Portfolio Companies and Castles (A)	Hedge Funds	Hedge Funds	PE Funds	Other	Total
Investment, beginning	$1,177	$ 720,817	$76,355	$180,664	$58,507	$166,482	$7,682	$1,211,684
Earnings from equity method investees	(554)	79,929	N/A	14,138	9,037	23,161	(196)	125,515
Other comprehensive income from equity method investees	12	—	N/A	—	—	—	—	12
Contributions to equity method investees (B)	—	16,084	319	58,663	149,892	22,282	854	248,094
Distributions of earnings from equity method investees	—	(8,921)	N/A	(17,850)	(9,373)	(17,428)	(4)	(53,576)
Distributions of capital from equity method investees	(635)	(3,328)	N/A	(69,155)	(150,962)	(49,350)	(130)	(273,560)
Total distributions from equity method investees (B)	(635)	(12,249)	N/A	(87,005)	(160,335)	(66,778)	(134)	(327,136)
Mark to fair value - during period (C)	N/A	648	11,003	N/A	N/A	N/A	N/A	11,651
Translation adjustment	—	(1)	1,726	—	—	151	—	1,876
Dispositions	—	—	(9,927)	—	—	(24)	—	(9,951)
Reclassification to Due to Affiliates (D)	—	1,647	—	—	—	—	—	1,647
Investment, ending	$—	$ 806,875	$79,476	$166,460	$57,101	$145,274	$8,206	$1,263,392
Ending balance of undistributed earnings	$—	$ 94,421	$ N/A	$5,722	$1,774	$5,818	$2,046	$109,781

(A) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.
(B) The amounts presented above can be reconciled to the amounts presented on the statement of cash flows as follows:

Nine Months Ended September 30, 2013	
Contributions	Distributions of Capital

Per Consolidated Statements of Cash Flows	$25,885	$257,829
Investments of incentive receivable amounts into Fortress Funds	206,455	—
Change in distributions payable out of Fortress Funds	—	3,066
Net funded*	12,398	12,398
Consolidation of private equity liquidating entity	2,553	—
Other	803	267
Per Above	$248,094	$273,560

*In some instances, a private equity style fund may need to simultaneously make both a capital call (for new investments or expenses) and a capital distribution (related to realizations from existing investments). This results in a net funding.

(C) Recorded to Gains (Losses).
(D) Represents a portion of the general partner liability discussed in Note 9.

The ownership percentages presented in the following tables are reflective of the ownership interests held as of the end of the respective periods. For tables which include more than one Fortress Fund, the ownership percentages are based on a weighted average by total equity of the funds as of period end. NIH, the Castles, GAGFAH and Other are not presented as they are insignificant to Fortress's investments.

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	Private Equity Funds excluding NIH (B)	
	September 30, 2013	December 31, 2012
Assets	$18,248,275	$15,944,821
Debt	—	—
Other liabilities	(178,957)	(143,951)
Equity	$18,069,318	$15,800,870
Fortress's Investment	$806,875	$720,817
Ownership (A)	4.5 %	4.6 %

	Nine Months Ended September 30,	
	2013	2012
Revenues and gains (losses) on investments	$2,745,654	$2,763,969
Expenses	(149,763)	(140,842)
Net Income (Loss)	$2,595,891	$2,623,127
Fortress's equity in net income (loss)	$79,929	$70,644

	Liquid Hedge Funds (C)		Credit Hedge Funds		Credit PE Funds (B) (D)	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Assets		$9,293,405	$9,818,652	$9,431,681	$9,476,196	$9,536,328
Debt		—	(3,731,912)	(3,329,686)	(199,707)	(75,413)
Other liabilities		(4,682,311)	(315,294)	(447,127)	(262,226)	(314,329)
Non-controlling interest		—	(2,394)	(4,289)	(7,887)	(14,228)
Equity	$6,267,484	$4,611,094	$5,769,052	$5,650,579	$9,006,376	$9,132,358
Fortress's Investment	$166,460	$180,664	$57,101	$58,507	$145,274	$166,482
Ownership (A)	2.7 %	3.9 %	1.0 %	1.0 %	1.6 %	1.8 %

	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012
Revenues and gains (losses) on investments		$367,662	$975,979	$929,106	$1,296,556	$1,384,905
Expenses		(93,966)	(182,961)	(171,931)	(233,363)	(213,996)
Net Income (Loss)	$420,916	$273,696	$793,018	$757,175	$1,063,193	$1,170,909
Fortress's equity in net income (loss)	$14,138	$14,050	$9,037	$8,791	$23,161	$16,532

(A) Excludes ownership interests held by other Fortress Funds, the Principals, employees and other affiliates.

(B) For Private Equity Funds, includes four entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the period ended June 30, 2013). For Credit PE Funds, includes one entity which is recorded on a one quarter lag and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under U.S. GAAP within the reporting time frame necessary for U.S. public entities.

(C) In interim periods, the liquid hedge funds prepare summary financial information on a one quarter lag. For the nine months ended June 30, 2013, the liquid hedge funds recorded \$754.2 million of revenues and gains (losses) on investments, \$103.5 million of expenses, and \$650.7 million of net income (loss).

(D) Includes certain entities in which Fortress has both a direct and an indirect investment.

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Investments in Variable Interest Entities

Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the variable interest entities in which it holds an interest, except as described below. No reconsideration events occurred during the nine months ended September 30, 2013 which caused a change in Fortress's accounting.

The following tables set forth certain information as of September 30, 2013 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities formed during the nine months ended September 30, 2013:

	Fortress is not Primary Beneficiary			
Business Segment	Gross Assets	Financial Obligations	Fortress Investment (A)	Notes
Castles	$2,929,633	$1,467,934	$ 60,471	(B)
Credit PE Funds	92,595	27,170	394	(B)
Logan Circle	240,106	—	126	(B)

(A) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities.

(B) Fortress is not the primary beneficiary of this entity, because it does not absorb a majority of the entity's expected income or loss based on a quantitative analysis.

All variable interest entities:

	Fortress is not Primary Beneficiary						
	September 30, 2013			December 31, 2012			
Business Segment	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	$970	$—	$ 270	$9,087	$ —	$ 1,176	(C) (D)
Castles	9,171,246	6,171,617	129,240	7,421,269	5,798,143	56,294	(C) (D)
Liquid Hedge Funds	3,221,910	868,456	4,089	4,905,876	2,271,914	27,817	(C) (D)
Credit Hedge Funds	1,909,917	386,868	3,270	1,771,900	365,135	46,193	(C) (D)
Credit PE Funds	1,149,350	374,211	4,839	1,536,067	418,208	4,483	(C) (D)
Logan Circle	240,106	—	126	—	—	—	(C) (D)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries.

(B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fee and/or incentive income Fortress earns from those entities.

(C) Fortress is not the primary beneficiary of the Castles, NIH and the Logan Circle Fund because it does not absorb a majority of their expected income or loss based on a quantitative analysis. Of the remaining entities represented herein, which primarily represent investing vehicles, intermediate entities and master funds, Fortress is not the primary beneficiary because the related funds, intermediate entities and feeder funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles, intermediate entities and master funds were formed for the sole purpose of acting as investment vehicles for the related funds.

(D) Fortress's investment includes management fees receivable, incentive income receivable, expense reimbursements and other receivables from these entities, as applicable.

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FCF is an entity which provides operating services to all of Fortress's private equity funds and is reimbursed for related costs by the private equity funds based on a contractual formula. Therefore, FCF by design does not produce net income or have equity. FCF was deemed to be a VIE and Fortress, as a result of directing the operations of FCF through its management contracts with the private equity funds, and providing financial support to FCF, was deemed to be its primary beneficiary. Therefore, Fortress consolidates FCF. As of September 30, 2013, FCF's gross assets were approximately $43.4 million, primarily comprised of affiliate receivables. Fortress's exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately $15.3 million at September 30, 2013, plus any future advances. These advances are eliminated in consolidation. FCF's creditors do not have recourse to Fortress's other assets and FCF's assets are not available to other creditors of Fortress.

Fair Value of Financial Instruments

The following table presents information regarding Fortress's financial instruments that are recorded at fair value. Investments denominated in foreign currencies have been translated at the period end exchange rate. Changes in fair value are recorded in Gains (Losses).

	Fair Value		Valuation Method
	September 30, 2013	December 31, 2012	
Assets (within Investments)			
Newcastle, New Residential and Eurocastle common shares	$15,300	$9,042	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	64,176	67,313	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	$79,476	$76,355	
Newcastle, New Residential and Eurocastle options	$100,123	$38,077	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	$6,253	$1,101	Level 2 - See below
Equity Securities (A)	$20,984	$—	Level 1 - Quoted prices in active markets for identical assets
Liabilities (within Accrued Compensation and Benefits)			
Options in affiliates granted to employees	$(15,957)	$(10,120)	Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other Liabilities)			
Derivatives	$(2,469)	$—	Level 2 - See below

(A) In June 2013, Fortress made a direct investment in accounts managed by Logan Circle's growth equities business. The equity investments in these accounts are owned on Fortress's behalf and are held at fair value. As of September 30, 2013, Fortress's investment was comprised of approximately $21.0 million of equity securities, classified as trading.

In January 2013, Newcastle issued 57.5 million shares of its common stock in a public offering at a price to the public of $9.35 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 5,750,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately $18.0 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. In connection with this offering, two of the Principals each purchased 106,950 shares of Newcastle at the public offering price.

In February 2013, Newcastle issued 23.0 million shares of its common stock in a public offering at a price to the underwriters of $10.34 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 2,300,000 shares of Newcastle's common stock with a strike

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price of $10.48 per share, which were valued at approximately $8.4 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. In connection with this offering, two of the Principals each purchased 95,500 shares of Newcastle at a price of $10.48 per share.

In May 2013, Newcastle distributed all of the common shares of its subsidiary, New Residential Investment Corp. ("New Residential," NYSE: NRZ) to its shareholders. In connection with this transaction, Fortress's options in Newcastle were exchanged for options in both Newcastle and New Residential; this resulted in no change to their aggregate strike price. As a result, Fortress owns an investment and options in New Residential, which it has elected to record at fair value. Fortress entered into a management agreement with New Residential on substantially the same terms as Newcastle.

In May 2013, Eurocastle issued 15.0 million shares of its common stock in a public offering at a price to the public of €7.25 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Eurocastle, in connection with this offering, Eurocastle granted options to Fortress to purchase 1,500,000 shares of Eurocastle's common stock at the public offering price, which were valued at approximately $6.2 million. The options were fully vested upon issuance, become exercisable from October 2013 and have a ten-year term.

In June 2013, Newcastle issued 40.3 million shares of its common stock in a public offering at a price to the public of $4.97 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 4,025,000 shares of Newcastle’s common stock at the public offering price, which were valued at approximately $3.8 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. In connection with this offering, two of the Principals purchased an aggregate of 750,000 shares of Newcastle at the public offering price.

In July 2013, Fortress sold 862,383 shares of GAGFAH (Note 3) and realized a gain of $5.5 million. From inception through June 30, 2013, Fortress recorded a cumulative unrealized gain of $6.2 million in its investment income, resulting in a $0.7 million loss in the third quarter of 2013.

Derivatives

Fortress is exposed to certain risks relating to its ongoing business operations. The primary risk managed by Fortress using derivative instruments is foreign currency risk. Fortress enters into foreign exchange forward contracts and options to economically hedge the risk of fluctuations in foreign exchange rates with respect to certain foreign currency denominated assets and expected revenues. Gains and losses on these contracts are reported currently in Gains (Losses).

Fortress’s derivative instruments are carried at fair value and are generally valued using models with observable market inputs that can be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of our Level 2 derivative contracts are contractual cash flows and market based parameters such as foreign exchange rates.

Fortress’s derivatives (not designated as hedges) are recorded as follows:

	Balance Sheet	Fair Value	Gains/(Losses) (B)	Maturity

	Location (A)	September 30, 2013	Notional Amount September 30, 2013	Nine Months Ended September 30, 2013	Date
Foreign exchange option contracts	Other Assets	$235	€16,000	$159	Mar-14
Foreign exchange option contracts	Other Liabilities	$(1,361)	€100,000	$(1,434)	Mar-14
Foreign exchange option contracts	Other Assets	$6,018	¥13,592,011	$4,937	Dec-13 - Jun-16
Foreign exchange option contracts	Other Liabilities	$(1,108)	¥1,334,948	$118	Dec-13

(A) Fortress has a master netting agreement with its counterparty.
(B) Reflects unrealized gains (losses) related to contracts existing at period end. Total net foreign exchange gains (losses) from derivatives were $3.8 million during the nine months ended September 30, 2013.

The counterparty on the outstanding derivatives is Citibank N.A.

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4. DEBT OBLIGATIONS

	Face Amount and Carrying Value		Contractual	Final	September 30, 2013
	September 30,	December 31,	Interest	Stated	Amount
Debt Obligation	2013	2012	Rate	Maturity	Available for Draws
Revolving credit agreement (A)(B)	$—	$—	LIBOR + 2.50% (C)	Feb 2016	$147,332
Promissory note (D)	—	149,453	5.00%	Feb 2014	N/A
Total	$—	$149,453			

(A) Collateralized by substantially all of Fortress Operating Group's assets as well as Fortress Operating Group's rights to fees from the Fortress Funds and its equity interests therein, other than fees from Fortress's senior living property manager.
(B) The $150.0 million revolving debt facility includes a $15.0 million letter of credit subfacility of which $2.7 million was utilized.
(C) Subject to unused commitment fees of 0.4% per annum.
(D) Issued to a former Principal in exchange for his equity interests in Fortress.

Fortress was in compliance with all of its debt covenants as of September 30, 2013. The following table sets forth the financial covenant requirements as of September 30, 2013.

	September 30, 2013 (dollars in millions)			
	Requirement		Actual	Notes
AUM, as defined	≥	$25,000	$41,964	(A)
Consolidated Leverage Ratio	≤	2.00	—	(B)
Consolidated Interest Coverage Ratio	≥	4.00	45.75	(B)

(A) Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments. The AUM presented here is based on the definition in the credit agreement.
(B) Impacted by Consolidated EBITDA, as defined, which is generally impacted by the same factors as distributable earnings, except Consolidated EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

In February 2013, Fortress terminated its existing $60.0 million revolving credit facility and entered into a new $150.0 million revolving credit facility (the "2013 Credit Agreement"). The 2013 Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon our credit rating and a commitment fee on undrawn amounts that fluctuates depending upon our credit rating, as well as other customary fees. In connection with the closing of the 2013 Credit Agreement, approximately $2.4 million of fees and expenses were incurred. The 2013 Credit Agreement contains customary representations and warranties, events of default, and affirmative and negative covenants, including restrictions on liens and indebtedness and requirements for minimum AUM (as defined), a maximum leverage ratio (as defined) and a minimum interest coverage ratio (as defined).

In July 2013, Fortress repaid the remaining $89.5 million, plus accrued interest, on its promissory note due to a former Principal. As such, this note is no longer outstanding.

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5. INCOME TAXES AND TAX RELATED PAYMENTS

A portion of Fortress's income is not subject to U.S. federal income tax, but is allocated directly to Fortress's shareholders.

Fortress recognizes compensation expense from the issuance of RSUs and RPUs (Note 7) over their vesting period. Consequently, Fortress records an estimated income tax benefit associated with RSUs and RPUs. However, Fortress is not entitled to an actual deduction on its income tax returns until a later date when the compensation is considered taxable to the employee. The actual income tax deduction can vary significantly from the amount recorded as an income tax benefit in earlier periods and is based on the value of the stock at the date the compensation is taxable to the employee.

At each tax deduction date, Fortress is required to compare the amount of the actual income tax benefit to the estimated amount recognized earlier. If the actual tax benefit is less than that estimated, which will occur if the price of the stock has declined during the vesting period, Fortress has a "tax shortfall." The tax shortfall must be charged to income tax expense to the extent Fortress does not have prior excess tax benefits (i.e., prior actual tax benefits associated with RSUs and RPUs that were greater than the estimated benefits).

Based on the value of the RSUs and RPUs which vested during the nine months ended September 30, 2013 and 2012, Fortress has estimated tax shortfalls of $25.1 million and $30.0 million, respectively, which have been charged to income tax expense during these periods.

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Current				
Federal income tax expense (benefit)	$3,150	$2,952	$(16,366)	$(2,634)
Foreign income tax expense (benefit)	2,038	1,814	4,942	5,094
State and local income tax expense (benefit)	1,712	(275)	612	(316)
	6,900	4,491	(10,812)	2,144
Deferred				
Federal income tax expense (benefit)	6,777	(520)	45,327	28,028
Foreign income tax expense (benefit)	(62)	(51)	(22)	956
State and local income tax expense (benefit)	1,179	(39)	7,743	3,123
	7,894	(610)	53,048	32,107
Total expense (benefit)	$14,794	$3,881	$42,236	$34,251

The tax effects of temporary differences have resulted in deferred income tax assets and liabilities as follows:

	September 30, 2013	December 31, 2012
Total deferred tax assets	$432,511	$485,160

Valuation allowance	(61,567)	(83,025)
Net deferred tax assets	$370,944	$402,135
Total deferred tax liabilities (A)	$15,715	$5,815

(A) Included in Other Liabilities. The deferred tax liabilities primarily relate to timing differences in the recognition of income from compensatory options received from Newcastle (Note 3).

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The following table summarizes the change in the deferred tax asset valuation allowance:

Valuation Allowance at December 31, 2012	$83,025
Changes due to FIG Corp ownership increases	(1,389)
Net decreases (A)	(20,069)
Valuation Allowance at September 30, 2013	$61,567

(A) Primarily related to a change in the portion of the deferred tax asset that would be realized in connection with future capital gains.

For the nine months ended September 30, 2013, a net deferred income tax provision of $0.4 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of $0.5 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs (Note 8), as applicable, and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 8), which are currently deductible for income tax purposes. In addition, a current income tax expense of $1.0 million was debited to paid-in capital related to the tax gain on treasury shares issued to employees in connection with equity-based compensation deliveries.

FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the nine months ended September 30, 2013 through the delivery of vested RSUs and RPUs (Note 7). As a result of this change in ownership and other factors, the deferred tax asset decreased by $0.5 million with an offsetting decrease of $1.4 million to the valuation allowance. In addition, the deferred tax asset was increased by $11.5 million related to a step-up in tax basis due to the share exchanges which will result in additional tax deductions, with an offsetting increase of $0.2 million to the valuation allowance. The establishment of these net deferred tax assets also increased additional paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the nine months ended September 30, 2013, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $18.5 million. In addition, during the nine months ended September 30, 2013, the realization of certain tax benefits, which were previously offset by a valuation allowance, gave rise to a $7.7 million increase in the expected tax receivable agreement liability.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

Private Equity			Credit			
		Liquid Hedge	Hedge			
Funds	Castles	Funds	Funds	PE Funds	Other	Total

September 30, 2013							
Management fees and incentive income (A)	$55,629	$9,711	$2,430	$5,126	$17,445	$691	$91,032
Expense reimbursements (A)	2,101	3,821	5,833	5,681	11,261	87	28,784
Expense reimbursements - FCF (B)	34,660	—	—	—	—	—	34,660
Dividends and distributions	—	285	—	—	—	—	285
Other	920	—	—	—	12	10,108	11,040
Total	$93,310	$13,817	$8,263	$10,807	$28,718	$10,886	$165,801

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	Private Equity			Credit			
	Funds	Castles	Liquid Hedge Funds	Hedge Funds	PE Funds	Other	Total
December 31, 2012							
Management fees and incentive income (A)	$31,909	$4,726	$40,929	$122,902	$26,937	$—	$227,403
Expense reimbursements (A)	1,338	3,651	5,376	3,621	10,405	—	24,391
Expense reimbursements - FCF (B)	14,557	—	—	—	—	—	14,557
Dividends and distributions	—	228	—	—	—	—	228
Other	1,584	654	—	—	650	11,090	13,978
Total	$49,388	$9,259	$46,305	$126,523	$37,992	$11,090	$280,557

(A) Net of allowances for uncollectible management fees and expense reimbursements of $12.2 million and $6.2 million at September 30, 2013, respectively, and of $12.2 million and $5.8 million as of December 31, 2012, respectively. Allowances are recorded as General and Administrative expenses.
(B) Represents expense reimbursements due to FCF, a consolidated VIE (Note 3).

As of September 30, 2013, amounts due from Fortress Funds recorded in Due from Affiliates included $47.5 million of past due management fees, excluding $12.2 million which has been fully reserved by Fortress, and $16.0 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds, excluding $6.2 million which has been fully reserved by Fortress. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees and reimbursable expenses will ultimately be collectible. The unreserved amounts are primarily due from three different funds and the amounts represent less than 5% of such funds' NAV, both individually and in the aggregate. Subsequent to September 30, 2013, $15.8 million of past due management fees from one fund were collected.

Due to affiliates was comprised of the following:

	September 30, 2013	December 31, 2012
Principals - tax receivable agreement - Note 5	$261,609	$253,787
Principals - Principal Performance Payments - Note 7	30,398	25,573
Distributions payable on Fortress Operating Group units	3,255	31,997
Other	6,986	6,450
General partner liability - Note 9	41,247	39,600
	$343,495	$357,407

Other Related Party Transactions

For the nine months ended September 30, 2013 and 2012, Other Revenues included approximately $1.3 million and $1.3 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2013, Fortress advanced $1.0 million to one of its senior employees who is not an officer. This advance bears interest at LIBOR+4.00%. All principal and interest is due and payable no later than February 2017. In addition, two senior employees repaid advances aggregating $1.6 million.

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Principals' and Others' Interests in Consolidated Subsidiaries

These amounts relate to equity interests in Fortress's consolidated, but not wholly owned, subsidiaries, which are held by the Principals, employees, and others.

This balance sheet caption was comprised of the following:

	September 30, 2013	December 31, 2012
Fortress Operating Group units held by the Principals and one senior employee	$573,802	$530,739
Employee interests in majority owned and controlled fund advisor and general partner entities	58,179	57,411
Other	2,041	2,029
Total	$634,022	$590,179

The Fortress Operating Group portion of these interests is computed as follows:

	September 30, 2013	December 31, 2012
Fortress Operating Group equity (Note 12)	$1,184,908	$1,058,886
Less: Others' interests in equity of consolidated subsidiaries (Note 12)	(60,220)	(59,440)
Total Fortress shareholders' equity in Fortress Operating Group	$1,124,688	$999,446
Fortress Operating Group units outstanding (A)	249,534,372	249,534,372
Class A shares outstanding (C)	239,568,798	220,369,026
Total	489,103,170	469,903,398
Fortress Operating Group as a percent of total (B)	51.0 %	53.1 %
Equity of Fortress Operating Group units held by Principals and one senior employee	$573,802	$530,739

(A) Held by the Principals and one senior employee; exclusive of Class A shares.
(B) As a result, the Registrant owned 49.0% and 46.9% of Fortress Operating Group as of September 30, 2013 and December 31, 2012, respectively.
(C) As of December 31, 2012, this includes 2,082,684 treasury shares held by Fortress Operating Group.

This statement of operations caption was comprised of shares of consolidated net income (loss) related to the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Fortress Operating Group units held by the Principals and one senior employee	$57,221	$3,845	$104,653	$15,332

Employee interests in majority owned and controlled fund advisor and general partner entities	1,647	2,098	6,756	5,228
Other	(64)	15	12	138
Total	$58,804	$5,958	$111,421	$20,698

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The purpose of this schedule is to disclose the effects of changes in Fortress's ownership interest in Fortress Operating Group on Fortress's equity:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income (loss) attributable to Fortress	$42,381	$708	$54,634	$(23,923)
Transfers (to) from the Principals' and Others' Interests:				
Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by the Principals and one senior employee	—	2,929	10,143	22,167
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs	3,062	3,579	12,550	14,280
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	$45,443	$7,216	$77,327	$12,524

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7. EQUITY-BASED AND OTHER COMPENSATION

Fortress's total compensation and benefits expense, including Principal Performance Payments, is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Equity-based compensation, per below	$8,671	$49,349	$28,648	$162,372
Profit-sharing expense, per below	29,540	37,018	194,091	97,249
Discretionary bonuses	52,033	46,410	155,121	140,846
Other payroll, taxes and benefits	56,213	48,644	161,731	136,800
	$146,457	$181,421	$539,591	$537,267

Equity-Based Compensation

The following tables set forth information regarding equity-based compensation activities.

	RSUs				Restricted Shares		RPUs	
	Employees		Non-Employees		Issued to Directors		Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding at December 31, 2012	21,754,544	$8.28	1,246,406	$5.51	828,211	$5.29	10,333,334	$13.75
Issued	8,805,841	5.06	—	—	127,533	6.21	—	—
Transfers	—	—	—	—	—	—	—	—
Converted to Class A shares	(9,589,683)	14.44	(1,231,906)	5.53	—	—	(10,333,334)	13.75
Forfeited	(713,969)	3.72	—	—	—	—	—	—
Outstanding at September 30, 2013 (B)	20,256,733	$4.12	14,500	$3.12	955,744	$5.41	—	$—

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Expense incurred (B)				
Employee RSUs	$5,069	$24,839	$18,357	$91,446
Non-Employee RSUs	—	228	1	609
Principal Performance Payments (C)	3,602	1,469	10,290	2,351
Restricted Shares (D)	—	—	—	24
RPUs	—	22,813	—	67,942
Total equity-based compensation expense	$8,671	$49,349	$28,648	$162,372

(A) Represents the weighted average grant date estimated fair value per share or unit.

(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of September 30, 2013 of $48.5 million, with a weighted average recognition period of 2.3 years. This does not include contingent amounts.

(C) Accrued based on year-to-date performance; the actual number of RSUs granted are determined at year end. Based on year-to-date performance, a total of approximately 2.5 million RSUs would be awarded as Principal Performance Payments.

(D) Certain restricted shares granted to directors are recorded in General and Administrative Expense ($0.6 million and $0.5 million for the nine months ended September 30, 2013 and 2012, respectively) and therefore are not included above.

When Fortress records equity-based compensation expense it records a corresponding increase in capital.

Fortress's management reviewed the estimated forfeiture factor as of September 30, 2013 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates did not materially impact equity-based compensation.

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In January 2013, Fortress granted 4.8 million RSUs to its employees valued at an aggregate of $20.5 million on the grant date. These RSUs generally vest over three years.

During the three months ended June 30, 2013, Fortress granted 1.1 million RSUs to its employees valued at an aggregate of $7.2 million on the grant date. These RSUs generally vest over three years.

The expense for Principal Performance Payments was comprised of the following:

	Nine Months Ended September 30, 2013		
	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity business	$—	$889	$889
Liquid hedge fund business	3,047	8,654	11,701
Credit business	7,243	14,554	21,797
Total	$10,290	$24,097	$34,387

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Private equity funds	$—	$262	$2,135	$672
Castles	(459)	1	7,757	3,378
Liquid hedge funds	(3,578)	4,544	35,458	11,431
Credit hedge funds	20,371	19,710	71,074	46,488
Credit PE funds	9,480	8,347	53,570	24,212
Principal Performance Payments (A)	3,726	4,154	24,097	11,068
Total	$29,540	$37,018	$194,091	$97,249

(A) Relates to all applicable segments. Accrued based on year-to-date performance; the actual payments due to each Principal are determined at year end.

Upon the resignation of one of Newcastle's officers, 2,170 vested out-of-the-money and 192,167 unvested Newcastle options, and 2,170 vested out-of-the-money and 192,167 unvested New Residential options were forfeited.

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8. EARNINGS PER SHARE AND DISTRIBUTIONS

The computations of basic and diluted net income (loss) per Class A share are set forth below:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	237,470,346	237,470,346	231,019,933	231,019,933
Fully vested restricted Class A share units with dividend equivalent rights	982,225	982,225	2,821,011	2,821,011
Fully vested restricted Class A shares	952,016	952,016	909,641	909,641
Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)	—	249,534,372	—	252,789,561
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	2,771,059	—	2,067,969
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	10,381,148	—	9,954,355
Total weighted average shares outstanding	239,404,587	502,091,166	234,750,585	499,562,470
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	$42,381	$42,381	$54,634	$54,634
Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	—	—	—	—
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(777)	(777)	(590)	(590)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)	—	18,906	—	52,551
Net income (loss) available to Class A shareholders	$41,604	$60,510	$54,044	$106,595
Weighted average shares outstanding	239,404,587	502,091,166	234,750,585	499,562,470

Basic and diluted net income (loss) per Class A share	$0.17	$0.12	$0.23	$0.21

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	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	217,293,696	217,293,696	207,521,553	207,521,553
Fully vested restricted Class A share units with dividend equivalent rights	2,519,869	2,519,869	4,068,945	4,068,945
Fully vested restricted Class A shares	828,211	828,211	706,787	706,787
Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)	—	299,397,765	—	305,134,049
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	—	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	—	—	—
Total weighted average shares outstanding	220,641,776	520,039,541	212,297,285	517,431,334
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	$708	$708	$(23,923)	$(23,923)
Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	(116)	(116)	(327)	(327)
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(108)	(108)	(327)	(327)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)	—	(22,295)	—	(42,943)
Net income (loss) available to Class A shareholders	$484	$(21,811)	$(24,577)	$(67,520)
Weighted average shares outstanding	220,641,776	520,039,541	212,297,285	517,431,334
Basic and diluted net income (loss) per Class A share	$0.00	$(0.04)	$(0.12)	$(0.13)

(1) The Fortress Operating Group units and fully vested RPUs not held by Fortress (that is, those held by the Principals and one senior employee) are exchangeable into Class A shares on a one-to-one basis (fully vested RPUs would first have to be exchanged for Fortress Operating Group units and Class B shares). These units and fully vested RPUs are not included in the computation of basic earnings per share. These units and fully vested RPUs enter into the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method, which includes the income tax effects of nondiscretionary adjustments to the net income (loss) attributable to Class A shareholders from assumed conversion of these units and fully vested RPUs. To the extent charges, particularly tax related charges, are incurred by the Registrant (i.e. not at the Fortress Operating Group level), the effect may be anti-dilutive.

(2) Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress's Class A shares and therefore participate fully in the results of Fortress's operations from the date they are granted. They are included in the computation of both basic and diluted earnings per Class A share using the two-class method for participating securities, except during periods of net losses.

(3) Certain restricted Class A share units granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities. These units are not included in the computation of basic earnings per share. They are included in the computation of diluted earnings per share when the effect is dilutive using the treasury stock method. The effect of the units on the calculation is generally anti-dilutive during periods of net losses. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Share Units	14,766,136	16,426,317	15,761,068	19,212,189

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(4) Fortress Operating Group RPUs are eligible to receive partnership distribution equivalent payments when distributions are declared and paid on Fortress Operating Group units. The RPUs represent a participating security of Fortress Operating Group and the resulting dilution in Fortress Operating Group earnings available to Fortress is reflected in the computation of both basic and diluted earnings per Class A share using the method prescribed for securities issued by a subsidiary. For purposes of the computation of basic and diluted earnings per Class A share, the fully vested restricted Class A share units with dividend equivalent rights are treated as outstanding Class A shares of Fortress and as outstanding partnership units of Fortress Operating Group.

The Class B shares have no net income (loss) per share as they do not participate in Fortress's earnings (losses) or distributions. The Class B shares have no dividend or liquidation rights. Each Class B share, along with one Fortress Operating Group unit, can be exchanged for one Class A share, subject to certain limitations. The Class B shares have voting rights on a pari passu basis with the Class A shares.

Fortress's dividend paying shares and units were as follows:

	Weighted Average Three Months Ended September 30,		Weighted Average Nine Months Ended September 30,	
	2013	2012	2013	2012
Class A shares (public shareholders)	237,470,346	217,293,696	231,019,933	207,521,553
Restricted Class A shares (directors)	952,016	828,211	909,641	722,413
Restricted Class A share units (employees) (A)	982,225	2,519,869	2,821,011	4,068,945
Restricted Class A share units (employees) (B)	5,744,629	6,434,147	4,759,829	6,667,917
Fortress Operating Group units (Principals and one senior employee)	249,534,372	299,397,765	249,534,372	301,815,314
Fortress Operating Group RPUs (one senior employee)	—	10,333,334	3,255,189	13,652,069
Total	494,683,588	536,807,022	492,299,975	534,448,211

	As of September 30, 2013	As of December 31, 2012
Class A shares (public shareholders)	238,613,054	217,458,131
Restricted Class A shares (directors)	955,744	828,211
Restricted Class A share units (employees) (A)	21,851	555,646
Restricted Class A share units (employees) (B)	5,744,629	6,434,147
Fortress Operating Group units (Principals and one senior employee)	249,534,372	249,534,372
Fortress Operating Group RPUs (one senior employee)	—	10,333,334
Total	494,869,650	485,143,841

(A) Represents fully vested restricted Class A share units which are entitled to dividend equivalent payments.
(B) Represents unvested restricted Class A share units which are entitled to dividend equivalent payments.

In January 2013, 8.0 million existing RSUs and 10.3 million existing RPUs vested and the related Class A and Class B shares, as applicable, were delivered within six months of vesting pursuant to the plan documents. All of the treasury shares held at December 31, 2012 were issued to employees in connection with these deliveries. In March 2013, one senior employee exchanged an aggregate of 10.3 million FOG units and Class B shares for an equal number of Class A shares. A portion of the vested shares are generally sold to cover withholding tax requirements. In June 2013, one of the Principals contributed 300,000 Class A shares to a charitable organization.

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Dividends and distributions during the nine months ended September 30, 2013 are summarized as follows:

		Declared in Current Year		
	Declared in Prior Year, Paid in Current Year	Declared and Paid	Declared but not yet Paid	Total
Dividends on Class A Shares	$—	$41,830	$—	$41,830
Dividend equivalents on restricted Class A share units (A)	—	1,338	—	1,338
Distributions to Fortress Operating Group unit holders (Principals and one senior employee) (B)	30,725	51,656	3,255	54,911
Distributions to Fortress Operating Group RPU holders (Note 7) (B)	1,272	401	—	401
Total distributions	$31,997	$95,225	$3,255	$98,480

(A) A portion of these dividend equivalents, if any, related to RSUs expected to be forfeited, is included as compensation expense in the consolidated statement of operations and is therefore considered an operating cash flow.

(B) Fortress Operating Group made tax-related distributions to the FOG unit holders (the Principals and one senior employee) and the RPU holder (one senior employee).

On May 1, 2013, Fortress declared a first quarter cash dividend of $0.06 per Class A share. The dividend was payable on May 17, 2013 to holders of record of Class A shares on May 14, 2013. The aggregate amount of this dividend payment was approximately $14.2 million. In connection with this dividend, dividend equivalent payments of approximately $0.3 million were paid to holders of restricted Class A share units.

On July 31, 2013, Fortress declared a second quarter cash dividend of $0.06 per Class A share. The dividend was payable on August 16, 2013 to holders of record of Class A shares on August 13, 2013. The aggregate amount of this dividend payment was approximately $14.3 million. In connection with this dividend, dividend equivalent payments of approximately $0.4 million were paid to holders of restricted Class A share units.

On October 30, 2013, Fortress declared a third quarter cash dividend of $0.06 per Class A share. The dividend is payable on November 15, 2013 to holders of record of Class A shares on November 12, 2013. The aggregate amount of this dividend payment is approximately $14.4 million. In connection with this dividend, dividend equivalent payments of approximately $0.4 million will be paid to holders of restricted Class A share units.

9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2012.

General Partner Liability — Certain of Fortress's consolidated subsidiaries act as the general partner of various Fortress Funds and accordingly have potentially unlimited liability for the obligations of the funds under applicable partnership law principles. In the event that any such fund was to fall into a negative net equity position (Note 2), the full amount of the negative net equity would be recorded on the balance sheet of the general partner entity. Such amount would be recorded on the Fortress balance sheet in consolidation until it is legally resolved. While these entities are limited liability companies and generally have no material assets other than their general partner interests, these entities and Fortress may be subject to litigation in connection with such amounts if fund creditors choose to sue Fortress to seek repayment. See "Litigation" below.

In March 2011, one private equity fund fell into a negative equity position, after considering all of Fortress's interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at September 30, 2013 was $41.2 million.

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Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of September 30, 2013, individually and in the aggregate, will not materially affect Fortress's results of operations, liquidity or financial position.

In some cases, Fortress is named as a defendant in legal actions pertaining to one of the Fortress Funds and/or their portfolio companies. In such cases, Fortress is generally indemnified by the fund against potential losses arising from Fortress's role as investment manager.

Private Equity Fund and Credit PE Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated $172.9 million as of September 30, 2013, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

Minimum Future Rentals — Fortress is a lessee under operating leases for office space located in a number of locations worldwide.

Minimum future rental payments (excluding expense escalations) under these leases are as follows:

October 1 to December 31, 2013	$ 6,342
2014	24,068
2015	21,472
2016	19,919
2017	2,761
2018	402
Thereafter	38
Total	$ 75,002

Rent expense, including operating expense escalations, during the nine months ended September 30, 2013 and 2012 was $17.9 million and $18.9 million, respectively, and was included in General, Administrative and Other Expense.

10. SEGMENT REPORTING

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds, (vi) Logan Circle and (vii) principal investments in these funds as well as cash that is available to be invested.

"Distributable earnings" is a measure of operating performance used by management in analyzing its segment and overall results. For the existing Fortress businesses it is equal to net income (loss) attributable to Fortress's Class A shareholders adjusted as follows:

Incentive Income

(i) a. for Fortress Funds which are private equity funds and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by Fortress's chief operating decision maker (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP,

b. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

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Other Income

(ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:

a. for equity method investments in the private equity funds and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, primarily dividends, from these funds, minus (b) impairment with respect to these funds, if necessary, minus (c) equity method earnings (or losses) recorded in accordance with GAAP,

b. subtracting gains (or adding losses) on stock options held in the Castles,

c. subtracting unrealized gains (or adding unrealized losses) on derivatives, direct investments in publicly traded portfolio companies and in the Castles,

(iii) adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the Castles, in excess of their strike price, minus (b) management fee income recorded in accordance with GAAP in connection with the receipt of these options,

Expenses

(iv) adding or subtracting, as necessary, the employee profit sharing in incentive income described in (i) above to match the timing of the expense with the revenue,

(v) adding back equity-based compensation expense (including Castle options assigned to employees, RSUs and RPUs (including the portion of related dividend and distribution equivalents recorded as compensation expense), and restricted shares),

(vi) adding or subtracting, as necessary, any changes in the fair value of contingent consideration payable with respect to the acquisition of a business, to the extent management intends to pay it in equity and it is recorded on the statement of operations under GAAP,

(vii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,

(viii) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals, which expired in December 2011,

(ix) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units, and

(x) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 5).

Fund management DE is equal to distributable earnings excluding investment-related results (specifically, investment income (loss) and interest expense) and is used by management to measure performance of the operating (management) business on a stand-alone basis. Fortress defines its segment operating margin to be equal to fund management DE divided by segment revenues.

Total segment assets are equal to total GAAP assets adjusted for:

(i) any difference between the GAAP carrying amount of equity method investments and their carrying amount for segment reporting purposes, which is generally fair value for publicly traded investments and net asset value for nonpublic investments,

(ii)

employees' and others' portions of investments, which are reported gross for GAAP purposes (as assets offset by Principals' and others' interests in equity of consolidated subsidiaries) but net for segment reporting purposes,

(iii) the difference, if any, between the GAAP carrying amount of intangible assets and goodwill and their carrying amount for segment reporting purposes resulting from the distributable earnings adjustments listed above, and

(iv) at interim periods, the accrued incentive income recorded for distributable earnings purposes in relation to the incentive income reconciling item in (i)(b) above.

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Distributable Earnings Impairment

Clawback Reserve on Incentive Income for DE Purposes

Fortress had recognized incentive income for DE purposes from certain private equity funds and credit PE funds, which are subject to contingent clawback, as of September 30, 2013:

Fund (A)	Net Intrinsic Clawback (B)	Periods in Intrinsic Clawback	Prior Year End Inception-to-Date Net DE Reserve	Current Year-to-Date Gross DE Reserve	Current Year-to-Date Net DE Reserve	Inception-to-Date Net DE Reserve	Notes
Fund II	1,594	20 Quarters	$6,070	$(3,367)	$(2,155)	$3,915	(C)
Fund III	45,108	23 Quarters	45,108	—	—	45,108	(D)
FRID	10,041	25 Quarters	10,041	—	—	10,041	(D)
Total	$56,743		$61,219	$(3,367)	$(2,155)	$59,064	

(A) Fortress has recognized incentive income for DE purposes from the following funds, which do not have intrinsic clawback and for which the CODM has determined no clawback reserve is necessary: Fund I, Credit Opportunities Fund, Credit Opportunities Fund II, Credit Opportunities Fund III, certain FCO Managed Accounts, Real Estate Opportunities Fund, Net Lease Fund I and Japan Opportunity Fund.
(B) See Note 2.
(C) The previously recorded reserves with respect to this fund exceeded its net intrinsic clawback by approximately $3.3 million immediately prior to September 30, 2013. Based on the criteria determined by the CODM, management determined that a net reversal of $1.0 million of clawback reserve was appropriate for the three months ended September 30, 2013. In the aggregate, $2.2 million of net reserve has been reversed in 2013.
(D) The potential clawback on these funds has been fully reserved in prior periods.

Impairment Determination and Embedded Gain/Loss

During the nine months ended September 30, 2013, Fortress recorded $1.1 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. As of September 30, 2013, Fortress had $2.8 million of unrealized losses on certain investments that have not been recorded as impairment. As of September 30, 2013, Fortress's share of the net asset value of its direct and indirect investments exceeded its segment cost basis by $605.8 million, representing unrealized gains.

During the nine months ended September 30, 2013, Fortress recorded an aggregate net reversal of $2.2 million of clawback reserve for DE purposes.

Fortress expects aggregate returns on its private equity funds and credit PE funds that are in an unrealized investment loss or intrinsic clawback position, after taking reserves into account, to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their September 30, 2013 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately $2.8 million.

Embedded Incentive Income

As of September 30, 2013, Fortress had $903.5 million of gross undistributed incentive income (Note 2), or $817.7 million net of intrinsic clawback. Of the $903.5 million, $185.9 million has been recognized in distributable earnings. This amount represents hedge fund incentive income recorded during the nine months ended September 30, 2013.

In addition, if Fortress had exercised all of its in-the-money Newcastle, New Residential, and Eurocastle options (Note 3) and sold all of the resulting shares at their September 30, 2013 closing price, it would have recorded $90.4 million of gross additional distributable earnings, or $74.4 million net of employee interests.

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Segment Results of Operations

Summary financial data on Fortress's segments is presented on the following pages, together with a reconciliation to revenues, assets and net income (loss) for Fortress as a whole. Fortress's investments in, and earnings (losses) from, its equity method investees by segment are presented in Note 3.

September 30, 2013 and the Nine Months Then Ended

	Private Equity Funds	Castles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues									
Management fees	$101,126	$44,436	$79,380	$75,435	$71,218	$25,859	$—	$—	$397,454
Incentive income	9,181	7,299	97,324	140,840	102,148	—	—	—	356,792
Segment revenues - total	$110,307	$51,735	$176,704	$216,275	$173,366	$25,859	$—	$—	$754,246
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$71,352	$22,332	$86,543	$100,678	$44,861	$(7,605)	$—	$—	$318,161
Fund management distributable earnings (loss)	$71,352	$21,443	$77,890	$86,845	$44,139	$(7,605)	$—	$—	$294,064
Pre-tax distributable earnings (loss)	$71,352	$21,443	$77,890	$86,845	$44,139	$(7,605)	$19,108	$—	$313,172
Total segment assets	$93,732	$13,703	$90,022	$120,846	$30,634	$32,866	$1,707,074	$480,435 (A)	$2,569,312

(A) Unallocated assets include deferred tax assets of $370.9 million.

Three Months Ended September 30, 2013

	Private Equity Funds	Castles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues									
Management fees	$34,405	$13,620	$30,634	$25,481	$23,669	$8,833	$—	$—	$136,642

Incentive income	1,544	6,099	(27,387)	44,194	17,789	—	—	—	42,239
Segment revenues - total	$35,949	$19,719	$3,247	$69,675	$41,458	$8,833	$—	$—	$178,881
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$24,412	$7,679	$(11,923)	$32,844	$7,442	$(3,320)	$—	$—	$57,134
Fund management distributable earnings (loss)	$24,412	$6,790	$(10,730)	$28,940	$7,318	$(3,320)	$—	$—	$53,410
Pre-tax distributable earnings (loss)	$24,412	$6,790	$(10,730)	$28,940	$7,318	$(3,320)	$ 11,628	$—	$65,038

(B) See Note 7. Fund management distributable earnings (loss) is only reduced for the profit sharing component of the Principal Performance Payments.

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Nine Months Ended September 30, 2012

	Private Equity Funds	Castles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues									
Management fees	$89,410	$41,615	$57,537	$76,319	$63,992	$18,675	$—	$—	$347,548
Incentive income	8,252	—	21,394	92,183	42,415	—	—	—	164,244
Segment revenues - total	$97,662	$41,615	$78,931	$168,502	$106,407	$18,675	$—	$—	$511,792
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$65,082	$19,650	$16,067	$76,277	$13,149	$(6,831)	$—	$131	$183,525
Fund management distributable earnings (loss)	$65,082	$19,104	$14,488	$67,363	$13,121	$(6,831)	$—	$131	$172,458
Pre-tax distributable earnings (loss)	$65,082	$19,104	$14,488	$67,363	$13,121	$(6,831)	$(1,718)	$131	$170,740

Three Months Ended September 30, 2012

	Private Equity Funds	Castles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues									
Management fees	$30,004	$13,979	$18,176	$24,747	$21,438	$6,802	$ —	$—	$115,146
Incentive income	708	—	11,6						